



RATING ACTION COMMENTARY

Fitch Rates Westminster, CO Water and Wastewater Rev Ref Bonds at 'AA+'; Outlook Stable

Mon 27 Apr, 2020 - 4:18 PM ET

Fitch Ratings - Austin - 27 Apr 2020: Fitch Ratings has assigned a 'AA+' rating to the following Westminster, CO (the city) bonds:

--Approximately \$17 million water and sewer refunding revenue bonds, series 2020.

The series 2020 bonds are anticipated to sell the week of May 5 via negotiation. Proceeds of the series 2020 bonds will be used to refund the city's outstanding water and sewer revenue bonds, series 2010 (direct pay build America bonds) and to pay for cost of issuance.

In addition, Fitch affirms the 'AA+' rating on the authority's outstanding series 2010 (direct pay Build America Bonds) (pre-refunding), 2016 and 2019 bonds.

Fitch has also assessed the system's Standalone Credit Profile (SCP) to be 'aa+'.

The Rating Outlook is Stable.

ANALYTICAL CONCLUSION

The rating reflects the city's water and sewer system's (the system's) low leverage in the context of its strong revenue defensibility and very low operating cost burden. The issue rating is supported by the system's standalone credit profile, which Fitch has assessed at 'aa+'. Fitch expects leverage to increase as the city addresses necessary capital improvements that will be partially debt funded. The city has adopted above average rate increases through at least fiscal 2020 in support of the additional debt. The system's financial flexibility positions it well to absorb the anticipated \$140 million in additional revenue bonds to support Water2025, the replacement of one of the city's water treatment plants. While Fitch anticipates the system's net adjusted debt to adjusted funds available for debt service (net leverage) ratio to climb, it is expected to remain adequate for the current rating level.

CREDIT PROFILE

The system provides retail water, wastewater and stormwater service for the city of Westminster, CO (GO IDR AA+/Stable Outlook) and portions of the surrounding areas. Service is provided to approximately 32,800 and 30,300 water and wastewater accounts, respectively, representing a population of approximately 113,000.

The system's water supply is derived from Standley Lake, which is shared with the cities of Thornton and Northglenn, and the Farmers Reservoir and Irrigation Company. Water is treated at the city's two treatment plants. The capital improvement plan (CIP) includes the replacement of one water treatment plant that is nearing the end of its useful life. The new plant is expected to be online in 2025.

Roughly 65% of the city's wastewater flows are treated by the city's wastewater treatment plant (WWTP), with the remainder treated by the Metro Wastewater Reclamation District under a perpetual service contract with the city.

The recent outbreak of coronavirus and related government containment measures worldwide creates an uncertain global environment for the Water and Sewer sector.

The city has suspended work on the 2021-2022 water and sewer rate proposals and the city will provide ample notice to citizens when the city reconsiders rates for 2021-2022. While the utility's performance data through most recently available data has not indicated impairment, material changes in revenue and cost profile are occurring across the sector and likely to worsen in the coming weeks and months as economic activity suffers and government restrictions are maintained or expanded. Fitch's ratings are forward-looking in nature, and Fitch will monitor developments in the sector as a result of the virus outbreak as it relates to severity and duration, and incorporate revised expectations for future performance and assessment of key risks.

KEY RATING DRIVERS

Revenue Defensibility 'aa'

Very Strong Revenue Defensibility

Despite recent double digit rate increases adopted through 2020, the city's utility rates currently remain affordable for a large portion of the population and are expected to remain so for the foreseeable future. Prior to the suspension of rates discussions with city council, management was recommending 6% revenue increases for fiscal 2021 and 2022 for both the water and sewer systems. The 'aa' assessment is further supported by the monopolistic utility services provided to the system's service territory. The area benefits from its close proximity to the city of Denver, with favorable service area characteristics.

Operating Risks 'aa'

Very Low Operating Cost Burden; Extensive Capital Needs

The system's operating cost burden is very low with moderate life cycle investment needs. The system's large \$350 million adopted five year capital improvement plan

(CIP) will actively address sewer capacity needs and the replacement of an aging water treatment plant.

Financial Profile 'aa'

Financial Profile Reflects Anticipated Debt Obligations

Net leverage is currently very low at less than 1x for fiscal year 2018. The financial profile is very strong in the context of the utility's overall risk profile. Future debt to support necessary capital investment will increase the leverage ratio over the next five years.

ASYMMETRIC ADDITIVE RISK CONSIDERATIONS

No asymmetric additive risk considerations affected this rating determination.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--Sustained net leverage less than 5x as the system progresses toward the completion of Water2025 and absent changes to the business risk profile.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--Escalation in costs and/or debt issuance related to Water2025, that pushes net leverage closer to 7x or 8x on a sustained basis.

--A sustained increase in operating cost burden of over \$6,500.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Public Finance issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit

<https://www.fitchratings.com/site/re/10111579>.

SECURITY

The bonds are payable by an irrevocable first lien on the pledged revenues of the city's system, excluding stormwater system revenues. However, the city's audit presents financial results on a consolidated basis within the utility enterprise fund that includes water, wastewater and stormwater systems; stormwater charges generally account for around 6%-7% of total revenues. The series 2010 bonds are additionally payable by Build America Bonds subsidy payments received from the United States Treasury and a cash-funded debt service reserve fund.

REVENUE DEFENSIBILITY

Revenue Defensibility is very strong, assessed at 'aa' with all of its revenue derived from services or business lines exhibiting monopolistic characteristics in a service area with favorable demographic trends. The utility has independent legal ability to increase service rates without external approval. The city has recently adopted above average rate increases in support of extensive capital investment.

Adopted revenue adjustments for 2019 were 10% for water and 16% for sewer and 2020 increases were 10% for water and 12% for sewer. This continues the trend of above average rates increases. For fiscal 2020, the average residential bill (assuming 7,500 gallons of water and 6,000 gallons of sewer) is affordable for the vast majority of the population, with just 14% facing affordability concerns.

The city has temporarily postponed additional discussion involving rate increases for fiscal years 2021 and 2022, as a result of the uncertainty associated with the current coronavirus pandemic-driven governmental shutdown and economic downturn. However, leading up to the virus outbreak the city was deliberating additional rate increases, which will be revisited at a later date.

OPERATING RISKS

The system benefits from a very low operating cost that has remained between \$5,000 and about \$6,000 over the last five years, with total operating cost seeing gradual increases year over year. Capital planning and management is assessed at 'aa' and reflects the system's relatively low lifecycle investment needs and favorable life cycle ratio of 33% and capital spending as a percent of depreciation has been moderate over the last five fiscal years. The adopted 2019-2023 CIP totals over \$350 million and includes significant spending to replace one of the system's aging water treatment plants, Water2025. Water2025 is considered to be a necessary capital improvement and deferring the project is unlikely.

FINANCIAL PROFILE

The financial profile is assessed at 'aa' characterized by a currently very low net leverage ratio that is expected to climb over the coming five year period. Net leverage was negative 0.58x in fiscal 2018, showing improvement from a still very low 0.03x in fiscal 2016. Under Fitch's Analytical Sensitivity Tool (FAST) base case net leverage is expected to rise to 5.0x by fiscal 2023 based on planned debt issuances and assumed 3% annual revenue growth in fiscals 2021-2023. Under the FAST rating case, which applies a 10% increase to planned capital expenditures, net leverage is expected to rise slightly higher to around 5.9x by the end of the forecast. Fitch also applied a moderate stress to revenue in its forward look related to the impact of the coronavirus, but the results do not materially change and remain supportive of the current rating. As the system moves forward with Water2025, if net leverage either remains below 5.0x or only temporarily exceeds 5.0x, positive rating movement could occur.

The system's financial profile is supported by strong liquidity and rate raising capacity. A history of rate increases has helped maintain very strong financial

results. Financial margins are bolstered by connection fee revenue, which has seen solid growth due to robust development activity. Similarly, the system's liquidity, while considered neutral, is extremely robust, with coverage of full obligations at 4.23x and liquidity cushion of 986 days at the close of fiscal 2019. The city's financial flexibility positions it well to handle additional debt demands over the coming five years related to necessary and extensive capital investment.

SOURCES OF INFORMATION

In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from Lumesis.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

The highest level of ESG credit relevance, if present, is a score of 3. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity(ies), either due to their nature or to the way in which they are being managed by the entity(ies). For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

RATING ACTIONS

ENTITY/DEBT	RATING
Westminster (CO) [Water, Sewer]	

ENTITY/DEBT	RATING		
<ul style="list-style-type: none"> Westminster (CO) /Standalone Credit Profile - Water, 	LT	AA+	New Rating
VIEW ADDITIONAL RATING DETAILS			

FITCH RATINGS ANALYSTS

Teri Wenck, CPA

Director

Primary Rating Analyst

+1 512 215 3742

Fitch Ratings, Inc. 111 Congress Avenue Suite 2010 Austin 78701

Nicole Wood

Director

Secondary Rating Analyst

+1 212 908 0735

Douglas Scott

Managing Director

Committee Chairperson

+1 512 215 3725

MEDIA CONTACTS

Sandro Scenga

New York

+1 212 908 0278

sandro.scenga@thefitchgroup.com

Additional information is available on www.fitchratings.com

APPLICABLE CRITERIA

[Public Sector, Revenue-Supported Entities Rating Criteria \(pub. 27 Mar 2020\)](#)
(including rating assumption sensitivity)

[U.S. Water and Sewer Rating Criteria \(pub. 03 Apr 2020\) \(including rating assumption sensitivity\)](#)

ADDITIONAL DISCLOSURES

[Dodd-Frank Rating Information Disclosure Form](#)

[Solicitation Status](#)

[Endorsement Policy](#)

ENDORSEMENT STATUS

Westminster (CO)

EU Endorsed

DISCLAIMER

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK:

[HTTPS://WWW.FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](https://www.fitchratings.com/understandingcreditratings). IN ADDITION, THE FOLLOWING [HTTPS://WWW.FITCHRATINGS.COM/RATING-DEFINITIONS-DOCUMENT](https://www.fitchratings.com/rating-definitions-document) DETAILS FITCH'S RATING DEFINITIONS FOR EACH RATING SCALE AND RATING CATEGORIES, INCLUDING DEFINITIONS RELATING TO DEFAULT. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. DIRECTORS AND SHAREHOLDERS RELEVANT INTERESTS ARE AVAILABLE AT [HTTPS://WWW.FITCHRATINGS.COM/SITE/REGULATORY](https://www.fitchratings.com/site/regulatory). FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.

[READ LESS](#)

COPYRIGHT

Copyright © 2020 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the

collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001

Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see <https://www.fitchratings.com/site/regulatory>), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-

NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

[READ LESS](#)

SOLICITATION STATUS

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

ENDORSEMENT POLICY

Fitch's approach to ratings endorsement so that ratings produced outside the EU may be used by regulated entities within the EU for regulatory purposes, pursuant to the terms of the EU Regulation with respect to credit rating agencies, can be found on the EU Regulatory Disclosures page. The endorsement status of all International ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for all structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.

US Public Finance Infrastructure and Project Finance North America United States

